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Mr. Daniel Montgomery, Interim Technical Director
International Auditing and Assurance Standards Board
529 Fifth Avenue
New York, NY 10017

Proposed International Standard on Auditing (ISA) 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement* (ED-315)

Dear Mr. Montgomery:

We appreciate the opportunity to comment on the exposure draft referenced above.

By way of background, Baker Tilly Virchow Krause, LLP is a large, nationally recognized accounting firm operating primarily in the Midwest and Northeast regions of the United States. We have approximately 300 partners and employ more than 2,700 persons. Our practice is diverse, offering accounting and auditing services as well as tax and consulting services across a broad spectrum of industries and geographies.

Overall Comments

Structure and Organization

While we believe that the additional guidance included in ED-315 will be beneficial to auditors in performing their required risk assessments, once the proposed changes to the concepts, definitions and requirements in ED-315 have been finalized, we recommend that the IAASB review the proposed standard for opportunities to streamline the standard's structure and organization in order to improve auditors' ability to effectively operationalize the standard.

Objective of Obtaining an Understanding of the Entity's System of Internal Control

While paragraph A89 of ED-315 does state that, "obtaining an understanding of the entity's system of internal control assists the auditor in identifying and assessing the risks of material misstatement at the financial statement level and at the assertion level," we believe that the proposed revisions to ED-315 provide an opportunity for the IAASB to more clearly communicate to auditors the objective of this requirement. Many auditors still do not understand the objective of this requirement, which in some cases affects the quality of the risk assessment procedures performed in this area and the understanding ultimately obtained, particularly when the auditor does not intend to test or rely on the entity's system of internal control.

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Overall Question – 4)

Do the proposals sufficiently support the appropriate exercise of professional skepticism through the risk identification and assessment process? Do you support the proposed change for the auditor to obtain “sufficient appropriate audit evidence” through the performance of risk assessment procedures to provide the basis for the identification and assessment of the risks of material misstatement, and do you believe this clarification will further encourage professional skepticism?

We do not support this proposed change. We believe that if the auditor’s risk assessment procedures (i.e. inquiry, analytical procedures, observation and inspection) are properly performed, a sufficient basis for the identification and assessment of the risks of material misstatement will have been obtained and requiring a further evaluation of the sufficiency and appropriateness of the audit evidence obtained would not be necessary. We recommend removing the terms sufficient and appropriate and instead adding guidance indicating that the risk assessment procedures performed should be commensurate with the expected level of the risk of material misstatement in a given audit area. For example, if the level of risk of material misstatement is expected to be high, the more likely it would be for the auditor’s risk assessment procedures to include inspection and / or a combination of risk assessment procedures as opposed to inquiry alone.

Specific Question – 6)(d)

Do you support the introduction of the new concepts and related definitions of significant classes of transactions, account balances and disclosures, and their relevant assertions? Is there sufficient guidance to explain how they are determined (i.e. an assertion is relevant when there is a reasonable possibility of occurrence of a misstatement that is material with respect to that assertion) and how they assist the auditor in identifying where risks of material misstatement exist?

While we agree with defining a relevant assertion as, “a reasonable possibility of occurrence of a misstatement with respect to that assertion that is material, individually or in combination with other misstatements,” we do not agree that a reasonable possibility should be defined as, “such possibility when the likelihood of a material misstatement is more than remote.” We believe that including a threshold of “more than remote” in the definition may require auditors to conclude that some assertions are relevant even though the likelihood of the occurrence of a misstatement with respect to that assertion is very low, resulting in the performance of unnecessary audit procedures. We believe that auditors should be allowed to utilize their professional judgment to determine when there is a reasonable possibility of the occurrence of a misstatement with respect to a given assertion.

Specific Question - 11)(b)

Effective date—Recognizing that ED-315 is a substantive revision, and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning at least 18 months after the approval of a final ISA. Earlier application would be permitted and encouraged. The IAASB welcome comments on whether this would provide a sufficient period to support effective implementation of the ISA.

Given the significance of the proposed changes in ED-315, we believe that the proposed effective date should be extended to at least 24 months after the date that the revised standard is issued in order to allow firms sufficient time to update their audit methodologies.

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We appreciate the opportunity to provide the above comments and are available for further discussion with the IAASB if that would be useful to the process. Should you wish to discuss any of these comments, please contact David Johnson, Professional Practice Group Partner, at david.johnson@bakertilly.com or 608 240 2422.

Sincerely,

BAKER TILLY VIRCHOW KRAUSE, LLP

Baker Tilly Virchow Krause, LLP